

# CITY OF KEMAH INVESTMENT POLICY & STRATEGY

- POLICY
- STRATEGIES
- GUIDELINES
- MANAGEMENT



## Declaration

The City Council officially finds, determines, and declares that this Investment Policy was reviewed, carefully considered, and adopted at a regular meeting of the City Council on

Date: January 20, 2021

Time: 7:00 p.m.

The City Council officially finds, determines, and declares that a sufficient written notice of the date, hour, place, and subject of this meeting was posted in accordance with the Open Meetings Act, Texas Government Code, Section 551, et seq. as amended, and that this meeting was open to the public as always required by law during which this Investment Policy was discussed, considered, and acted upon. The City Council further ratifies, approves, and confirms such written notice and the contents and posting thereof.

This Investment Policy shall be effective as of

Date: January 1, 2021

Time: 12:01 a.m.

Reviewed, amended, and adopted January 20, 2021

This policy supersedes any prior policies adopted by the city council regarding investment or securitization of city funds.

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## 1.0 Introduction

These Investment Policies and Procedures apply to the investment of public funds of the City of Kemah and are effective January 1, 1996. This version supersedes all previous policies and procedures. It is the policy of the city to invest public funds in a manner that will provide maximum security and the best commensurate yield while meeting the daily cash flow demands of the city. This investment policy has been written in compliance with authority granted in Chapter 2256 of the Texas Government Code and Chapter 2257 of the Texas Government Code. This policy will be reviewed and adopted by ordinance at least annually, in accordance with Section 2256.005(e) of the Texas Government Code to achieve a prudent cash and investment management program.

This policy shall be made available to anyone who has management responsibility for city funds, and in the absence of their specific investment policy, or not being otherwise governed by state law, this policy shall prevail. With respect to the funds of non-profit corporations that are established by city resolution and act as instrumentalities of the city, it is recommended that the city's investment policy be followed.

## **2.0 Definitions**

Unless the context states otherwise, the following terms and phrases used in these Investment Policy and Procedures shall mean the following:

### **AUTHORIZED COLLATERAL**

Any means or method of securing the deposit of City funds authorized by Chapter 2257, Texas Government Code.

### **AUTHORIZED INVESTMENT**

The types of investments authorized for the investment of City funds, listed in Article V hereof.

### **CITY**

City of Kemah, Texas

### **CITY COUNCIL**

The Kemah City Council

### **COLLATERAL**

Any means or method of securing the deposit of City funds under Section 5.04 hereof.

### **EMPLOYEE**

Any persons employed by the City. This excludes independent contractors or professionals hired by the City as outside consultants.

### **INVESTMENT OFFICER**

The Finance Director or the City employee designated as the City's Investment Officer by the City Council, who is responsible for the investment of City funds.

### **PUBLIC FUNDS COLLATERAL ACT/ PUBLIC FUNDS INVESTMENT ACT**

Chapter 2257 of the Texas Government Code/ Chapter 2256 of the Texas Government Code

## **3.0 Investment Policy**

### **Section 3.01**

#### **Applicability**

This policy governs the investment of the "Restricted Investment Portfolio," and the "General Fund Portfolio." The restricted investment portfolio is comprised primarily of the debt service sinking funds and any other "specific use" funds, including any bond funds. Bond funds are unique in that they have associated legal covenants which detail specific types of legal investment instruments as per bond issue.

### **Section 3.02**

#### **Purpose**

The City desires to adopt this Investment Policy in order to comply with the Public Funds Investment Act and to set forth the general policies governing investment of City funds, the specific investment strategies applicable to each particular fund of the City, the guidelines for investment of City funds, including the types of investments authorized for City funds, and the investment management policies of the City.

### **Section 3.03**

#### **Investment Policy**

The primary concern of the Investment Officer in the investment of funds of the City shall be the preservation and safety of the principal. To the extent that the principal is protected, the secondary concern of the City's Investment Officer in investing the City's funds shall be the liquidity of the City's investments. Finally, to the extent that principal is protected and there is liquidity, the City's Investment Officer shall invest City funds to yield the highest possible rate of return in accordance with this Investment Policy.

### **Section 3.04**

#### **Standard of Care**

The Investment Officer shall invest City funds with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of the principal and probable income to be derived.

### **Section 3.05**

#### **Investment Diversification**

City investments shall be diversified as to maturity, in accordance with the investment strategies described in Article IV.

### **Section 3.06**

#### **Investment Yield**

To the extent that the principal is protected and there is liquidity of the City's investments, City funds shall be invested to yield the highest possible rate of return, taking into consideration the strength of any financial institution selling investments to the City, and complying with all applicable laws, rules, or regulations and any bond resolutions or orders adopted from time to time by the City Council requiring yield restrictions.

### **Section 3.07**

#### **Investment Maturities**

City funds shall be invested to mature to meet the City's cash requirements, but when cash requirements are met, funds shall be invested in accordance with the investment strategies developed for individual City funds, as described in Article IV herein.

### **Section 3.08**

#### **Ethics and conflicts of interest**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Officers and employees involved in the investment process shall disclose any material interests in financial institutions with which they conduct business. Officers and employees involved in the investment process shall disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio. The city statute on conflict of interest and disclosure shall be strictly followed.

### **Section 3.09**

#### **Purchase/Repurchase Agreements**

A fully collateralized repurchase agreement is an authorized investment provided it complies with this paragraph and is approved by the City Attorney. The repurchase agreement must:

- Have a defined termination date
- Requires the securities being purchased by the city to be assigned to the city, held in the city's name, and deposited at the time the investment is made with the city or with a third party selected and approved by the city
- Be placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state, and which is rated no less than A or its equivalent by two nationally recognized rating services.
- Be secured by a combination of cash and obligations described by Texas Gov't code Sections 2256.009(a)(1) or 2256.013, or if applicable, Section 2256.0204

## **4.0 Investment Strategies**

### **Section 4.01**

#### **Purpose**

This policy governs the investment objectives for each separate fund of the City and to provide investment strategies to obtain such objectives to ensure that investments in a particular fund are suitable for and meet the objectives of the fund. No fund groups shall be pooled for the purposes of investment, e.g., the funds in the Operating Account and in the Capital Projects (Construction) Account shall not be commingled or pooled for purposes of investment.

### **Section 4.02**

#### **Operating or General Account**

The investment objectives of the operating or general account are:

- Preserve principal
- Ensure that funds are available as needed to meet the City's operating expenses, as estimated by the annual operating budget, and ensuring that the investments can be readily liquidated in the event there are unexpected additional operating costs.
- Obtain the maximum yield on investments as permitted by law.
  - to the extent principal is protected and there is adequate liquidity

The Investment Officer shall invest funds of the operating or general account in any Authorized Investment, provided that funds needed for the City's monthly operating expenses, as determined by the annual operating budget, investments will mature no later than the date the funds will be needed to pay such operating expenses.

### **Section 4.03**

#### **Construction or Capital Projects Funds**

The investment objectives of the construction or capital projects funds are:

- Preserve principal
- Ensure that funds are available as needed to meet the construction needs of the City as determined by the City's engineer.
- Obtain the maximum yield on investments as permitted by law.
  - to the extent principal is protected and there is adequate liquidity

When applicable, the City's engineer and Director of Public Works or designee shall submit to the City Council and the Investment Officer semi-annual written reports stating the anticipated construction needs of the City for the succeeding 12 months. Unless otherwise directed by the City Council, the written report shall be submitted two months prior to the end of the City's fiscal year and every six months thereafter.

The Investment Officer shall invest funds of the construction or capital projects funds in any Authorized Investments, provided that funds needed to meet the construction needs of the City, as determined by the City's engineer and Director of Public Works or designee, investments will mature no later than the date the funds will be needed to pay for the project(s).

#### **Section 4.04**

##### **Debt Service Funds**

The investment objectives of the debt service funds are:

- Preserve principal
- Ensure that funds are available as needed to meet the debt service needs of the City.
- Obtain the maximum yield on investments as permitted by law.
  - to the extent principal is protected and there is adequate liquidity

The Investment Officer shall invest funds in the debt service funds in any Authorized Investment for such funds, and in accordance with any covenants made regarding the investment of these funds as provided in any applicable bond indenture, provided that funds needed for the City's debt service payments, the investment shall mature no later than the date the debt service payment is due.

#### **Section 4.05**

##### **Debt Service Reserve Funds**

The investment objectives of the debt service reserve funds are:

- Preserve principal
- Ensure that funds are available as needed to meet the debt service needs of the City.
- Obtain the maximum yield on investments as permitted by law.
  - to the extent principal is protected and there is adequate liquidity

The Investment Officer shall invest funds in the debt service reserve funds in any Authorized Investment for such funds, and in accordance with any covenants made regarding the investment of these funds as provided in any applicable bond indenture or ordinance.

## 5.0 Investment Guidelines

### Section 5.01

#### **Purpose**

This policy establishes the types of Authorized Investments in which the City's funds may be invested and the manner in which certain investments may be made.

### Section 5.02

#### **Authorized Investments**

The City is authorized to invest its funds in the following types of investments:

##### Obligations of, or Guaranteed by, the United States

The City is authorized to invest its funds in obligations of, or guaranteed by, the United States or one of its agencies or instrumentalities.

##### Certificates of Deposit

The City is authorized to invest its funds in certificates of deposit issued by a state or national bank domiciled in Texas. Principal and accrued interest shall not exceed FDIC limits and/or the collateral pledged as security for the City's investments as set forth in Section 5.04 herein.

The City is authorized to invest in the following types of investments to the extent authorized by the Public Funds Investment Act, only upon the City Council's adoption of a separate ordinance authorizing such investment:

- Obligations of, or guaranteed by, government entities other than the United States or one of its agencies or instrumentalities
- Mutual funds
- Investment pools

### Section 5.03

#### **Unauthorized Investments**

The City is not authorized to invest its funds in:

- Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal
- Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest
- Collateralized mortgage obligations that have a stated final maturity date of greater than ten years
- Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

## **Section 5.04**

### **Security of funds/Collateral Policy**

It shall be the policy of the City that all funds held in cash or in certificates of deposit shall be secured by the FDIC and/or by collateral pledged to the extent of the fair market value of the amount not insured. The City recognizes that the FDIC insurance is only available up to a maximum of \$250,000 (including accrued interest) per financial institution and that the amount of funds at any one Texas financial institution (including branch banks located within the same county) will be cumulated to determine whether the \$250,000 limit has been exceeded.

If it is necessary for the City's depositories to pledge Collateral to secure the City's deposits:

- The Collateral pledge agreement must be in writing
- The Collateral pledge agreement must be approved by the depository's board of directors or loan committee
- The depository's approval of the Collateral pledge agreement must be reflected in the minutes of the meeting of the depository's board or loan committee approving same
- The Collateral pledge agreement must be kept in the official records of the depository. The depository must provide to the Investment Officer or City Council written proof of the depository's approval of the pledge agreement as required herein in a form acceptable to the City. A signed or certified copy of the minutes of the meeting of the depository's board or loan committee reflecting the approval of the Collateral pledge agreement or other written documentation of such approval acceptable to the Investment Officer will be accepted. It is the preference of the City Council that all requirements of this section be met prior to the deposit of any City funds in such financial institution when a pledge of Collateral is required; however, the City Council recognizes that compliance with this preference might not be practicable due to time constraints for making a deposit. In such event, the City Council directs the Investment Officer to proceed diligently to have such agreement approved and documented to assure protection of the City's funds. If the decision is made to forego the protection of a Collateral pledge agreement with any depository, the Investment Officer shall be responsible for maintaining the balance of deposit(s) in such depository plus any accrued but unpaid interest at or below FDIC insurance levels.

Collateral pledged by a depository shall be held in safekeeping at an independent third-party institution, and the Investment Officer shall obtain safe-keeping receipts from the Texas financial institution or the safekeeping institution that reflect that Collateral as allowed by this Investment Policy and in the amount required was pledged to the City. Principal and accrued interest on deposits in a financial institution shall not exceed the FDIC's, or its successor's insurance limits, or the market value of the Collateral pledged as security for the City's deposits. It shall be acceptable for the Investment Officer to periodically receive interest on deposits to be deposited to the credit of the City if needed to keep the amount of the funds under the insurance or collateral limits. It is the preference of the City Council that there be no sharing, splitting or co-tenancy of Collateral with other secured parties or entities; however, in the event that a depository cannot accommodate this preference due to the denominations of the securities to be

pledged, the City Council directs the Investment Officer to obtain appropriate protections in the pledge agreement with the depository to assure that the Collateral is liquidated and the funds distributed appropriately to all parties with a security interest in such Collateral. The Investment Officer shall monitor the pledged Collateral to assure that it is pledged only to the City, review the fair market value of the Collateral to ensure that the City's funds are fully secured, and report periodically to the City Council regarding the Collateral.

The City's funds deposited in any Texas financial institution, to the extent that they are not insured, may be secured in any manner authorized by law for the City as such law is currently written or as amended in the future. As of the date of this Agreement, the following securities are authorized to serve as Collateral under the Collateral Act:

- Surety bonds
- An obligation that in the opinion of the Attorney General of the U.S. is a general obligation of the U.S. and backed by its full faith and credit
- A general or special obligation that is
  - payable from taxes, revenues, or a combination of taxes and revenues
  - issued by a state or political or governmental entity, agency, instrumentality, or subdivision of the state, including a municipality, an institution of higher education as defined by Section 61.003, Education Code, a junior college, a district created under Article XVI, Section 59 of the Texas Constitution, and a public hospital
- A fixed-rate collateralized mortgage obligation that has an expected weighted average life of 10 years or less and does not constitute a "high-risk mortgage security" under the Collateral Act
- A floating-rate collateralized mortgage obligation that does not constitute a "high-risk mortgage security" under the Collateral Act
- A security in which a public entity may invest under the Investment Act. As of the date of this Agreement, the following are the securities in which a public entity may invest under the Investment Act and, therefore, may be used as Collateral:
  - Obligations of the U.S. or its agencies and instrumentalities
  - Direct obligations of the State of Texas or its agencies and instrumentalities
  - Collateralized mortgage obligations directly issued by a federal agency or instrumentality or the U.S., the underlying security for which is guaranteed by an agency or instrumentality of the U.S.
  - Other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of the U.S. or the State of Texas or their respective agencies and instrumentalities
  - Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent
  - Certificates of deposit issued by a state or national bank domiciled in this State or a savings bank domiciled in this State or a state or federal credit union domiciled in this State that are guaranteed by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or its successor that are secured by the obligations in which the City may invest under the Investment Act
  - Repurchase agreements that comply with the Investment Act
  - Bankers' acceptances that comply with the Investment Act

- Commercial paper that complies with the Investment Act
- No-load money market mutual funds that comply with the Investment Act; and
- No-load mutual funds that comply with the Investment Act.
- Notwithstanding anything to the contrary provided above, the following may not be used as Collateral and are not authorized as investments for the City under the Investment Act:
  - Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal
  - Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest
  - Collateralized mortgage obligations that have a final stated maturity date of greater than 10 years other than those listed in Section 403.D.4 and 403.D.5 above
  - Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

**Section 5.05**

**Competitive Bidding**

At least three bids shall be solicited for each investment. Bids must be requested and received in writing or electronically (email).

**Section 5.06**

**Authorized Financial Dealers and Institutions**

The following are the creditworthy financial institutions and dealers authorized to sell investments to the City and with whom the City may engage in investment transactions:

Texas First Bank	Wells Fargo Bank	Merrill Lynch
Amegy Bank	Moody National Bank	
Frost National Bank	Bank of America	Dean Witter
Lehman Brothers	Guaranty Federal Bank	TexPool
Coastal Banc SSB	Paine Webber	

All financial institutions and dealers who would like to become qualified to bid on investments other than certificates of deposit must submit the following to the Investment Officer:

- The Collateral pledge agreement must be in writing
- Audited financial statements
  - Proof of National Association of Securities Dealers (NASD) certification
  - Proof of state registration

- Certification of having read the City's Investment Policy. An annual review of the financial condition and registration of qualified dealers and institutions will be conducted by the Investment Officer.

### **Section 5.07**

#### **Electronic Wire Transfers**

The City may use electronic means to transfer or invest all funds collected or controlled by the City.

## **6.0 Investment Management**

### **Section 6.01**

#### **Designation of Investment Officer**

The City Secretary may serve as the Investment Officer, or the City Council may designate a qualified employee of the City to serve as the Investment Officer for the City. The Investment Officer has the authority to deposit, withdraw, invest, transfer, and manage the City's funds in accordance with this Investment Policy and applicable law.

### **Section 6.02**

#### **Investment Training**

The persons serving as the Investment Officer and the City Secretary at the time this Investment Policy is adopted shall attend at least one training session relating to such person's responsibilities under the Public Funds Investment Act within 12 months of taking office or assuming duties as Investment Officer and attend and receive not less than ten (10) hours of instruction in every two-year period relating to investment responsibilities under the Investment Act from an independent source approved by the City Council.

### **Section 6.03**

#### **Compliance Audit**

The City, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to this Investment Policy.

### **Section 6.04**

#### **Internal Management Reports**

The Investment Officer shall prepare quarterly written reports of investment transactions for all funds covered by this Investment Policy and submit the reports to the City Council within a reasonable time after the completion of each fiscal year quarter. The report must:

- Describe in detail the investment position of the City on the date of the report
- Be prepared jointly by all the Investment Officers of the City, if the City appoints more than one
- Be signed by all Investment Officers and City Officials who prepare the report
- State the book value and the market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested
- State the maturity date of each separately invested asset that has a maturity date
- State the City fund for which each individual investment was acquired
- State the compliance of the investment portfolio as it related to this Policy and the Investment Act.

## **Section 6.05**

### **Monitoring of the Market Value of Investments and Collateral**

The Investment Officer shall determine the market value of each investment and of all collateral pledged to secure deposits of City funds as least quarterly and at a time as close as practicable to the closing of the reporting period for investment. Such values shall be included on the investment report. Certificates of deposit shall be valued at their face value plus any accrued but unpaid interest.

## **Section 6.06**

### **Conflicts of Interest**

In the event that the Investment Officer has a personal business relationship with an entity seeking to sell an investment to the City, the Investment Officer shall file a statement with the City Council and the Texas Ethics Commission disclosing that personal business relationship prior to purchasing such investment. An Investment Officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to sell an investment to the City shall file a statement with the City Council and the Texas Ethics Commission disclosing that relationship.

## **Section 6.07**

### **Disclosure of Investment Policies**

The Investment Officer shall provide a copy of this Investment Policy to any person seeking to sell the City an Authorized Investment. The registered principal of the business organization shall execute a written acknowledgement in the form set forth in Appendix "A" hereto, to the effect that the registered principal has received and thoroughly reviewed the Investment Policy of the City and acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of the investment transactions conducted between the City and the organization. The Investment Officer shall not buy any securities from a person who has not delivered to the entity a written acknowledgment in the form set forth in Appendix "A".

The City shall present the Investment Officer with a copy of this Investment Policy and shall execute a written statement in the form set forth in Appendix "B" to the effect that the Investment Officer has reviewed the Investment Policy and has implemented procedures and controls to comply with the Investment Policy.

## **7.0 Appendix**

**Appendix A**

**REGISTERED PRINCIPAL'S CERTIFICATION OF RECEIPT AND REVIEW OF INVESTMENT POLICY**

THE STATE OF TEXAS

COUNTY OF GALVESTON

I, the undersigned, \_\_\_\_\_, registered principal of \_\_\_\_\_, do hereby certify that I have been presented a copy of the Policy for the Investment of City funds (the "Investment Policy") for Kemah, Texas. I have thoroughly reviewed the Investment Policy and acknowledge that the City has implemented procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and \_\_\_\_\_.

WITNESS MY HAND THIS \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**Appendix B**

**INVESTMENT OFFICER'S CERTIFICATION OF RECEIPT AND REVIEW OF INVESTMENT POLICY**

THE STATE OF TEXAS

COUNTY OF GALVESTON

I, \_\_\_\_\_, the designated investment officer of the City of Kemah, Texas, do hereby certify that I have been presented a copy of the Policy for the Investment of City funds, (the "Investment Policy") for Kemah, Texas. I have thoroughly reviewed the Investment Policy and acknowledge that the City of Kemah has implemented procedures and controls to comply with the Investment Policy.

WITNESS MY HAND THIS \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

Name: \_\_\_\_\_

Title: \_\_\_\_\_